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Energy and Technology Committee

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**HB 6510 - An Act Establishing A Public Power Authority**

NRG is pleased to provide the following comments on draft bill HB 6510 - An Act Establishing A Public Power Authority. My name is Ray Long, I am Director of the Northeast Region for NRG Energy, Inc. NRG is a competitive wholesale generator in Connecticut with power plants located in Montville, Middletown, Norwalk, Devon, Cos Cob, Torrington, and Branford. We operate nearly 2,000 MW in Connecticut, enough power to serve nearly 1/3 of the state or over 1.4 million households.

NRG is deeply concerned about the current economic climate and the additional burden high electricity prices place on all consumers in Connecticut. My written comments will address some of the key initiatives that have been put in place by the legislature and are already yielding solutions to the issues that this power authority legislation seeks to address.

HB 6510 is aimed at addressing increases in electricity prices and stabilizing prices long term, while maintaining the critically needed reliability of our power system. However, this legislation is redundant and unnecessary as the issues it seeks to address are already being addressed by legislation that has been signed into law in previous sessions. I will address three key points in this testimony:

1. **The Comprehensive energy legislation passed in 2005 and 2007 is working and should be allowed to continue to work.**

2. A business climate that guarantees sound and prudent investments through a consistent regulatory and legislative environment is essential for infrastructure development and job creation in Connecticut.
3. Competition remains the most appropriate mechanism to ensure the most reasonable costs for obtaining resources, and protects ratepayers from cost-overruns and stranded costs associated with imprudent infrastructure investments.

**1.) Comprehensive Energy legislation passed in 2005 and 2007 should be allowed to continue to work:**

In brief, the Legislature passed two comprehensive energy bills in 2005 and 2007 which are achieving their goals: new, reliable generation that is environmentally friendly and price competitive. The creation of a power authority is both unneeded and will potentially hamper the progress being made from the 2005 and 2007 legislation.

The following is a summary of the projects Connecticut is realizing as a result of these two landmark laws. It is important to note that the projects resulting from the 2005 and 2007 energy legislation were all borne from competitive solicitations that sought bids from both private sector generators and utilities. Winners of the first solicitation received long-term contracts based on the prices bid into the solicitations. Winners of the second solicitation will receive 30-year agreements and will be paid their costs associated with the projects, and a regulated rate of return (this is known as a “cost of service” arrangement).

**Projects Awarded from the 2005 Energy Independence Act Process**

- Kleen Energy – 620 MW combined cycle project in Middletown
- Waterside Power - 66 MW peaking project in Stamford
- Ameresco -5 MW state-wide energy efficiency program
- Waterbury Generation – 96 MW peaking project in Waterbury

### **Projects Awarded from the 2007 Energy Act Process**

- GenConn (NRG and UI) – 200 MW peaking project in Devon
- GenConn (NRG and UI) – 200 MW peaking project in Middletown
- PSEG -130 MW peaking project in New Haven

### **Additional Energy Projects Brought On-Line**

- NRG Cos Cob – 40 MW peaking project – Greenwich – on line June 2008

It is important to note that the 2007 Energy Act creates an annual process to identify new energy resource needs, and it established a process to ensure future needs are met. The so-called Integrated Resource Plan ('IRP') was implemented in 2008 and this first IRP has been completed. The 2007 Act permits the DPUC to conduct competitive solicitations, that include both private sector generators and utilities, to fulfill the "needs" identified in the IRP. As we've seen from the prior solicitations discussed above, this process is successfully yielding new energy projects – AND because the DPUC has received multiple projects from multiple parties, the DPUC is able to choose only those projects that are in the best interests of ratepayers.

Specifically, the language in this bill appears to allow only the utilities to own and operate generation in a way that circumvents the intent of existing energy legislation. In 2005 and 2007 the legislature fully examined allowing the utilities back in the generation business. Both Acts permitted the utilities AND private sector generators to submit bids in a competitive process for evaluation by the DPUC. In 2007, both of the state's utilities opted not to participate, despite supporting the enabling Act. In 2008, CL&P's proposal was not selected by the DPUC, finding that other proposals had greater net benefits. Regardless of the type of contract awarded, competition among ALL interested parties (utilities and private sector) has enabled the state to choose the best projects from a multitude of bidders.

Despite the success of this process, Section 12 of HB 6510 appears to make the utilities the builder of last resort with no competitive process - there is simply no need for legislation that provides one or two companies essentially a 30+ year agreement that guarantees them an estimated 10% profit without first testing their proposals within a

competitive process. State agencies are prohibited from entering into “No Bid Contracts” and we should not do it here. Moreover, none of us would do a home construction project by accepting the first estimate we receive, and we should get several estimates for generation projects from different companies to ensure that Connecticut ratepayers are getting the best projects for the money.

**2.) A business climate that guarantees sound and prudent investments through a consistent regulatory and legislative environment is essential for infrastructure development and job creation in Connecticut.**

The 2005 Energy Independence Act and the comprehensive 2007 energy legislation allow for competitive processes to identify and approve the best options for Connecticut Ratepayers. The robust response to these competitive solicitations demonstrates that competition in generation markets is alive and well in Connecticut. These competitive processes have enabled the state to choose among the best resources for Connecticut based on the cost and the benefits. Changing the rules of the game again in Connecticut will only drive away private capital and investment, leaving ratepayers to shoulder the full burden and risk associated with infrastructure development in Connecticut.

As discussed above, Connecticut can continue to incent private investment in new energy infrastructure technology to accelerate the benefits that improve the environment, while maintaining adequate electrical supply. However, these infrastructure enhancements are contingent upon a business climate that guarantees sound and prudent investments through a consistent regulatory and legislative environment. The public policy behind competitive procurement of power supplies financed with private capital is implicitly sensible in that it drives innovation and efficiency in the power sector, more accurately reflects the underlying value of energy infrastructure, including environmental externalities, and encourages the development of new resources without subjecting ratepayers to the risk of stranded costs or cost overruns.

**3.) Competition remains the most appropriate mechanism to ensure the most reasonable costs for obtaining resources, and protects ratepayers from cost-overruns and stranded costs associated with imprudent infrastructure investments.**

We urge the legislature to continue with the established processes for competitive procurement of new resources RFPs for intermediate, baseload and peaking generation that result in long term contracts for investment in generation, are critical for getting the most efficient and cost effective generation for Connecticut Ratepayers. A competitively bid process is the only way to insure that ratepayers get only the lowest priced, most efficient generation. If utilities choose to compete in this process, there must be a level playing field for utilities and competitive generators. Such a level playing field is essential to ensure that consumers will know how much they are paying and will be less likely to fall into the stranded cost trap. In this way, the state will be able to select projects on the basis of their impact on prices and consumer costs, and Connecticut will get the benefit of knowing it has chosen the best priced offer for the type of generation needed. Selecting from a limited class (like the utilities) limits the options from which the state can select the right solutions. This encourages the construction of ratepayer subsidized generation. Moreover, there is no assurance that ratepayers are getting the lowest cost capacity – the best “bang for their buck” – without an open and inclusive solicitation.

As in the past, NRG stands ready to work with you to address these issues and move Connecticut forward. Thank you for providing NRG the opportunity to provide comments today.